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PARTNERSHIP FOR ADVANCING REFORMS IN THE ECONOMY IN BOSNIA AND HERZEGOVINA

**YEAR 4 ANNUAL REPORT
MARCH 5, 2011 – MARCH 5, 2012**

April 2012

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Contract No. 168-C-00-08-00102-00

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USAID/Bosnia-Herzegovina Economic Development Office**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

CONTENTS

CONTENTS	iii
Foreword.....	iv
ABBREVIATIONS	v
SECTION I. Executive Summary	6
SECTION II. The Macroeconomic Environment in Year 4.....	8
SECTION III. Achievements By Component	10
A.PIR 1: Regulatory System for Financial Services Sector Strengthened	10
B.PIR 2: Financial Administration of Public Resources Improved.....	15
E. USAID Development Credit Authority (DCA) Loan Portfolio Guarantee (LPG) Facility.....	177
F. Training Activity	21
G. Other Program Activities.....	22
H. PARE's Participation at Select Major Events	22
SECTION IV. Consolidated Performance Management Report.....	23
SECTION V. Administration and Project Management	27
SECTION VI. Annexes	27
Annex 1 – DETAILED PMP REPORT	288
Annex 2 – LIST OF COUNTERPARTS.....	333
Annex 3 – SUCCESS STORIES	377
Annex 4 – TRAINING ACTIVITY SUMMARIES	400
Annex 5 - THE BANKING SUPERVISION REGULATORY FRAMEWORK.....	466

FOREWORD

This document is the Year 4 Annual Report for the period from March 5, 2011 to March 5, 2012 submitted by USAID's PARE project in Bosnia-Herzegovina.

PARE is being implemented by Chemonics International pursuant to contract No. 168-C-00-08-00102-00 that the company has executed with the U.S. Agency for International Development (USAID). This report presents the progress made during the reporting period and provides relevant information regarding the activities completed and accomplishments achieved during Year 4 of the project's operation.

PARE would like to acknowledge the valuable guidance and support provided by USAID/PARE Contracting Officer's Representative (COR), Amira Vejzagić-Ramhorst.

Sarajevo,
April 2012

ABBREVIATIONS

ABRS	Banking Agency of RS
BA	Banks Association of BiH
BCP	Basel Core Principles
BiH	Bosnia and Herzegovina
BIS	Bank for International Settlements
BSA	Banking Supervisory Agency
CBBH	Central Bank of Bosnia-Herzegovina
CBR	Committee for Banking Reforms
CEBS	Committee of European banking Supervisors
CMS	Credit Management System
COP	Chief of Party
CRD	Capital Requirements Directive
COR	Contracting Officer's Representative
DCA	Development Credit Authority
DIA	Deposit Insurance Agency
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EU	European Union
FBA	Banking Agency of FBiH
FBiH	Federation of BiH
FSAP	Financial Sector Assessment Program
IA	Internal Audit
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors Global
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
KRA	Key Result Area
LOP	Life of Project
LPG	Loan Portfolio Guarantee
M&E	Monitoring and Evaluation
MFT	Ministry of Finance and Treasury of BiH
MRT	Market Risk Team
PARE	Partnership for Advancing Reforms in the Economy
PIR	Project Intermediate Result
PFS	Partners for Financial Stability
PMP	Performance Monitoring Plan
PMU	Project Management Unit
RS	Republika Srpska
SAI	Supreme Audit Institution
USAID	U.S. Agency for International Development

SECTION I. EXECUTIVE SUMMARY

In Year 4 (Y4), USAID's Partnership for Advancing Reforms in the Economy (PARE) project has completed its original mandate and term. It has successfully realized the main objectives of the technical assistance granted to Bosnia and Herzegovina (BiH) under this project, including strengthening the regulatory framework for the BiH financial services sector, improving the financial administration of public resources and improving the enabling environment for private sector investment and growth, by providing targeted, demand-driven assistance.

Y4 of the project activity was focused on completing the main technical assistance directives, mostly reforms that have been implemented through past years of the project with intention to leave concrete products and results in an applicable and usable format. These approaches were designed to leave a legacy of technical assistance to the project partners who will continue to work in these areas after the project closes out.

Throughout the year, PARE ensured that its technical assistance remains focused on: (1) increasing convergence within the country and with EU, (2) counterpart buy-in and ownership, (3) compliance with the *acquis communautaire*, (4) production of meaningful, measurable results, and (5) building donor synergies.

The technical assistance interventions have been developed and implemented in close partnership with the key financial sector institutions and other donors. Specific technical assistance achievements and deliverables are listed below:

HIGHLIGHTS

- Risk-based Supervision Regulatory Framework consisting of 13 regulations/decrees and associated articles of banking law was finalized. The framework was reviewed for consistency, and for legal and CRD compliance secured with adequate referencing (i.e. transposition tables)
- PARE organized a conference in Opatija, Croatia on the new Regulatory Framework as developed through project assistance. During the conference the main features of the framework including banking supervision regulations, and the comprehensive unified approach to regulatory reform in Bosnia and Herzegovina were presented to the management teams and governing boards of PARE's key counterparts in banking supervision
- Governing Boards of both Banking Supervision Agencies in BiH (FBA and ABRS) brought decisions in early December 2011 that the new Regulatory Framework represents a sound and comprehensive basis for Basel II/III based banking supervision reform introduction, and that the framework is to be implemented in line with their strategic documents and deadlines
- The roundtable "BiH Banking Reforms toward EU Accession" highlighted the role of the banking industry in implementing the new Supervision Regulatory Framework and encouraged coordination between the private sector and banking regulators
- Capacity building within the banking supervision institutions continued to be viewed

as a targeted area for the counterparts. Thus, the project organized training programs events including overall Risk Management, Market Risk and Modeling and Trading Standards

- Project assistance enabled counterparts to participate in the foreign banks supervisory colleges and joint cross-border supervision bodies through regulatory amendments to the laws on banking agencies based on the EU CRD requirements
- PARE technical assistance to the leasing sector included an overview of the regulatory framework for leasing financial services, and proposals for further regulatory improvements
- PARE continued technical assistance to the Deposit Insurance Agency (DIA) through supporting the DIA in implementation of the bank's premium model for insured deposits using actual data from the banks' 2010 financial reports, and preparation of a conformity assessment with the Core Principles, determined by the Basel Committee, International Association of Deposit Insurers, and the EU Directives
- PARE continued to implement the provisions of a Letter of Intent for Cooperation signed between the Ministry of Finance and Treasury of BiH (MFT) and PARE. The collaborative effort between PARE and the MFT resulted in the establishment of the Financial Coordination Unit (FCU) within the MFT in April 2011. This has been recognized as one of the achievements of BiH on its path towards EU integration in the BiH EU Progress Report for 2011. PARE build on this achievement by continuing to strengthen the FCU through capacity building training sessions for its members
- A Letter of Intent was signed with the Institute of Internal Auditors, the organization to serve as a custodian for PARE's technical assistance extended to the internal audit units at the public enterprises. PARE's publication "Internal Audit in Public Enterprises" was prepared and distributed to the counterparts
- The Project assisted in strengthening pilot internal audit units in three additional public enterprises including Park Sarajevo; Toplana (Central Heating Utility) Banja Luka; and Vodovod i Kanalizacija (Water Supply Utility) Zenica. This assistance included on-the-job training, development of legally required internal audit documents and assistance in audit conduct to make the units fully operational. Also, PARE organized a workshop to present the results of the technical assistance with these three public enterprises with the broader attendance of the parties involved
- PARE successfully administered the BiH DCA portfolio
- PARE arranged 19 capacity building programs and public events supplementing the project's technical assistance in banking supervision, deposit insurance, financial regulation and oversight, strengthening internal audit functions, and other related subjects

SECTION II. THE MACROECONOMIC ENVIRONMENT IN YEAR 4

In 2011, the economic crisis expanded through the fiscal and real sectors of the BiH economy, while the financial sector, although exposed to the certain pressures, retained a satisfactory level of stability, soundness, and liquidity. In this environment, domestic demand and private investment has decreased while public spending has exceeded actual income thus leading to increased demand for credit on the governmental side. This has resulted in the crowding out effects which has reduced access to bank lending in the real sector.

The economic recovery has been particularly hampered by unfavorable political developments including a 15 month delay in forming a state level government.

As a consequence, the pace of BiH's transition towards membership in the European Union has effectively been stalled and lags behind the other EU candidate countries and BiH's credit rating was lowered in late 2011 too.

Also, a macroeconomic program (stand-by arrangement) financed by the International Monetary Fund (IMF) was effectively cancelled in this period, due to inability of the authorities to satisfy a minimum of requirements mostly on the fiscal side, imposed by the IMF program. The governments failed to reach agreement on the fiscal consolidation of the general BiH government and the overall fiscal position has further deteriorated, instead.

The key indicators about the BiH's macroeconomic performance in 2011 are presented in the table below:

Selected Macroeconomic Indicators	2007 (BAM bn)	2008 (BAM bn)	2009 (BAM bn)	2010 (BAM bn)	2011 (BAM bn)
Nominal GDP	21.6	24.6	23.9	24.7	25.9
Inflation (%)	4.9	7.4	-0.4	0.9	3.7
Trade Balance	-7.9	-9.6	-6.8	-6.5	-7.3
Coverage Import/Export (%)	42.71	41.22	44.71	52.11	53.0
Current Account Deficit (% of GDP)	12.9	14.6	7.5	5.2	8.6
Foreign Currency Reserves	6.7	6.3	6.2	6.4	6.4
Sovereign Debt	3.9	4.2	5.2	6.2	6.7
Banking Sector					
Total Assets	19.5	21.0	20.9	21.1	21.9
Total Loans (net of reserves)	11.3	14.5	14.1	14.6	15.3
Total Liabilities	19.5	21.0	20.9	21.1	21.9
Citizens' Deposits	5.16	5.21	5.66	6.5	7.0
Total Turnover on Stock Exchanges in BiH	2.0	0.7	0.4	0.28	0.67

Data provided by CBBH bulletin and CBBH staff & Agency for Statistics of BiH

Despite of the overall economic developments, the banking system remained liquid and well capitalized but the ratio of non-performing loans (NPL) has been on rise.

However, the slow pace of the BiH economic recovery, along with the public debt crisis in Euro zone, affected the position of the EU based banks in regard to their exposure in Bosnia and Herzegovina. In 2011, it remained at about the same level, but with more negative prospects for the future. This situation still secured net profit gains of over BAM 170 million across the BiH banking sector. Positive trends on the side of the citizen's

deposits, assets and capital basis of the banks contributed to preserving a public trust in the banking sector thus supporting prospects for a broader economic recovery.

SECTION III. ACHIEVEMENTS BY COMPONENT

A.PIR 1: Regulatory System for Financial Services Sector Strengthened

Banking Supervision

The coordinated PARE effort with the counterparts and consultants resulted in advancing the banking supervision reform as planned. A comprehensive regulatory framework for banking supervision composed of thirteen regulatory decrees compliant with the international standards was completed to allow for legislative convergence of the banking supervision regulations within the country and with the Basel II and III accords and EU Capital Requirement Directives.

The regulations that were prepared over the last two years were finalized, legally reviewed, and aligned with the latest Basel II/III and EU Capital Requirements Directive solutions (CRD 1 - 3). The comprehensive regulatory framework represents a significant legal advancement towards new banking supervision approaches to be implemented in BiH.

This work ended in mid- October 2011 and was formally introduced in front of the banking agencies governing boards and management and the CBBH representatives at the Regulatory Framework for Banking Supervision conference in Opatija, on November 10, 2011. This activity also included a political dimension, for the first time the governing boards of the two entity agencies as well as reform coordinators from the CBBH discussed in one meeting an identical (countrywide) regulation for the BiH banking supervision.

In addition to preparation of the Decrees the project facilitated legal and consistency reviews. The Decrees were translated in the local language and transposition clauses/tables were developed for each of the Decrees enabling an easy and practical reference on the EU *acquis* in the national regulations.

Following the Opatija conference, the governing boards of both banking agencies in BiH met in early December 2011 and decided that the new regulatory framework consisting of 13 decrees represents a sound and comprehensive basis for Basel based banking supervision reform advancements, and that the framework is to be implemented in line with their strategic documents and deadlines (Please see letters/decisions in Annex 6 and 7 of the report).

In order to complement the banking supervision decrees, the project assisted with preparation of the articles of the Law on banks with references to the European Union (EU) Capital Requirement Directive (CRD) and delivered them to the counterparts.

Also in response to specific requests from the counterparts the project assisted with preparation of amendments to the law on banking agencies to align current confidentiality regulations with EU CRD requirements and allow the supervisors to participate in the foreign banks supervisory colleges and joint cross-border supervision bodies.

Objective

Achieve compliance with international principles (Basel II /III, IOSCO, FSAP, EU Directives) and the implementation of ECB and OECD recommendations to achieve alignment with international and EU standards and best practices.

Contribute to convergence and effective consolidation of banking supervision at the state level.

Progress within the reform process is illustrated in Annex 5 of the report.

In parallel, PARE organized a number of capacity building and other events aimed at strengthening the knowledge and skills of both counterparts' staff and banking professionals. It also included events oriented towards the establishment of public-private dialogue in the banking reform implementation process.

The details on PARE Y4 achievements and activities in banking supervision are listed below:

- Several meetings with directors of the BSAs and lead coordinators in Sarajevo and Banja Luka were held to discuss in detail the implementation plan of activities for the last year of the project activity
- Banking Supervision Regulatory Framework consisting of 13 regulations and transposition tables of articles of Banking Law were finalized
 1. Credit Risk Decree – Standardized Approach
 2. Credit Risk Decree – Internal Rating Based (IRB) Approach
 3. Credit Protection Decree
 4. Decree on Eligible Credit Assessment Institutions
 5. Large Exposures Decree
 6. Operational Risk Decree
 7. Market Risk Decree
 8. Own Funds Decree
 9. Risk Management Decree
 10. Guidelines on Internal Capital Assessment Process
 11. Trading Standards For Banks
 12. Liquidity Risk Management Decree
 13. Decree on Disclosures by Banks
- Capacity building activities included:
 - o Slovenia Study Tour provided the project counterparts with an opportunity to learn about regulatory, supervisory and industry practice on Risk Management (RM) and Internal Capital Adequacy Assessment Process (ICAAP)
 - o Seminar on econometrics introduced an advanced model for market risk management
 - o Roundtable “BiH Banking Reforms toward EU Accession” highlighted the role of the banking industry in implementation of the new risk-based supervision regulatory framework and encouraged coordination with banking supervision regulators. The roundtable also facilitated discussions on: the financial industry in BiH and its regulatory and institutional development, the current state of the banking sector and the implementation of the proposed reforms, and the role of bankers' associations in the banking sector reform process
 - o Workshop on market risk issues relevant to the banking supervision reforms strengthened capacity of the Banking Supervision Agencies staff members, focusing on internal models for market risk and the use of internal audit in banks in evaluating the risk management models
 - o Technical Meeting on Confidentiality Issues was conducted to help counterparts develop amendments to the laws on banking agencies to align current confidentiality regulations with EU CRD requirement

More detail information about each training activity is included in Annex 4 of the report.

Basel II Website

To facilitate the Banking Supervision reform, the Basel II website was created for use by PARE and counterparts' key staff implementing the Basel II/III Framework (www.bankarska-supervizija.ba). The Basel II website has been maintained, upgraded, and updated to store all relevant information about the reform processes as well as the activities of the working groups.



The website was developed following the Committee of European Banking Supervisors (CEBS) standardized format. The website contains updated regulatory framework information and records about the conclusions/observations from working groups meeting, results of joint assessments and decisions about the supervisory procedures, useful cross references to the relevant EU CRD, and analytical documents/presentations.

Leasing supervision

In Y4, PARE provided technical assistance to the leasing sector due to changes associated with the impacts from the global financial and economic crisis. The BSAs wanted to respond to the crisis through strengthening the oversight over leasing, and thus requested the technical assistance from the project.

PARE helped the counterparts in leasing sector (BSAs and BiH Association of Leasing Companies) to identify areas for regulatory strengthening aligned with the international standards.

Technical assistance started in July 2011 and included preparation of a report providing an overview of the regulatory and general environment for the development of leasing, and specific proposals for areas of supervision that required strengthening and improvements. The report was finalized in early October 2011 and three key areas in need of reform were identified: (1) leasing legal framework harmonization with the BiH financial system regulations, namely supervision and its enforcement; (2) capacity building of both private and public sector leasing entities; and (3) other related issues including Value Added Tax (VAT) and financial leasing, fees for supervisions and respective judiciary and enforcement practices.

PARE organized a presentation of the report findings and recommendations in a workshop with the representatives of leasing companies, their BiH Association and banking agencies. The workshop included presentations and discussions on report's findings and recommendations, as well as proposed revisions to the existing leasing legislation. Both,

Objective

Rules, regulations and oversight governing leasing are strengthened and consistent with EU requirements

findings and recommendations, were supported by the banking supervision agencies' representatives suggesting further institutional strengthening in the leasing sector.

Deposit Insurance Agency

In Y4, PARE continued to provide generous technical assistance to the Deposit Insurance Agency (DIA) to help maintain its role in preserving BiH financial sector stability:

Objective

To help the DIA revise its investment policy and guidelines to incorporate EU member states' practices and to update the model for eligible insured deposit thresholds.

- In May 2011, PARE provided support to the DIA in implementation of the bank premium model for insured deposits using actual bank data from the banks' 2010 financial reports. PARE organized a workshop with DIA staff to test the model, simulate scenarios and test assumptions by using actual bank data.
- In the same period, PARE worked with DIA to develop amendments in regard to relations between the provisional administration and payout procedure.
- In order to move forward with the issue, PARE organized a seminar for DIA and other financial sector agencies and institutions, including the Central Bank of BiH, the Ministry of Finance and Treasury of BiH and the Banking Supervision Agencies on Provisional Administration.
- PARE supported the DIA to assess the preconditions for establishing an individual bank risk based premium model. The model would rank banks risks and determine a premium based on the assessed risk level. Technical assistance provided by PARE included assessment of the implications and effects of introducing such a model and providing recommendations and guidelines for its introduction.
- In October 2011, based on the DIA's request, PARE assisted preparation of DIAs assessment of its compliance with international standards and practices, as requested by Core Principles of Effective Deposit Insurance Systems. Report on assessment of conformity included: funding (Principle P11), effective failure resolution process (P17), prompt access of depositors to their funds (P18), information sharing and cooperation with other participants in the financial safety net (P7), existence of safety network for early detection and timely intervention and resolution (P16), public policy objective (P2), legal powers to seek legal redress (P15), sharing the recoveries from the remaining assets of failed banks (19). Key recommendations suggest to improve exchange of data and cooperation between BSAs and the DIA namely under provisional administration and inconsistencies in the legislation.
- PARE cooperated with the DIA and Partners for Financial Stability (PFS) project in the preparation of the International Conference of Deposit Insurers.

Institutional Coordination between Stakeholders within the Financial Sector Strengthened (Track 2)

In PARE's fourth year of project implementation, PARE continued to implement the provisions of the Letter of Intent for Cooperation signed between the Ministry of Finance and Treasury of BiH (MFT) and PARE. The collaborative effort between PARE and the MFT resulted in the establishment of the Financial Coordination Unit (FCU) within the MFT in April 2011. This was recognized in the BiH EU Progress Report for 2011 as one of the major achievements of BiH on its path towards EU integration.

PARE initiated capacity building training for the FCU aimed at increasing the FCU's capacity to: (i) provide the Ministry with financial sector policy analysis/advice and (ii) serve as the logistic unit for the Financial Development Council (FDC). The final objective of capacity building is to provide members of the FCU and other training participants with skills and knowledge which will enable them to prepare financial development reports and other macro- economic and financial analysis.

In this respect, PARE organized a series of training sessions: (a) Financial Development Council and Financial Coordination Unit, its role and purpose (August 2011); (b) Central Banking and Central Bank of BiH (September 2011); (c) Financial Development, Economic Growth and Banking (October 2011); (d) Development of Capital Markets (November 2011), (d) and (e) Macro-economic analysis and design of macro-economic reports (December 2011). In order to improve coordination within the financial sector, FCU training sessions included representatives of other financial sector institutions, such as BSA's and CBBH.

PARE continued work on the Law on Financial Development Council (FDC). The draft law was updated and improved, based on the development in the financial and political environment of BiH. Due to delays in setting up of the State-level Government (which was set up 15 months after the elections, in February 2012), final draft of the Law on FDC was not yet sent into parliamentary procedure.

B.PIR 2: Financial Administration of Public Resources Improved

Pilot Internal Controls and Audit Units Established

Through Component 2, PARE aims to improve the financial administration of public resources, through the establishment of an internal audit function in public enterprises to add value and improve efficiency and quality of public services. Based on the positive experience with the first internal audit unit at public enterprise Rad from Sarajevo in 2010, PARE extended its technical assistance to the additional three public enterprises in BiH.

As a result, PARE held the Internal Audit in Public Enterprises roundtable on May 6, 2011 to promote and disseminate its publication “Internal Audit in Public Enterprises”. It serves as a practical guide for internal auditors with public enterprises developing effective internal audit operations, including procedures, documentation and templates. At this event, PARE also signed a Letter of Intent for cooperation with the Institute of Internal Auditors in BiH (furthermore the Institute), as a legacy organization that will preserve the project technical assistance and replicate it further.

In this new phase, PARE trained four selected trainers from the Institute to work directly with internal audit units at three additional public enterprises selected by PARE. The assistance to these IA units utilized a “training of trainers” model and previous materials developed for the “Rad” pilot audit unit, but also considered specific needs and the development level of new enterprises.

The three public enterprises are Park from Sarajevo, Vodovod i Kanalizacija from Zenica (Water and Sewage Utility) and Toplana from Banja Luka (Central Heating Utility), and were selected by PARE and subsequently approved by USAID. It was important to note that the internal audit function was in different stages of development in those three companies.

While the company Park established its internal audit unit in 2009, the companies Vodovod i Kanalizacija (VIK) and Toplana started introducing their internal audit functions in the summer of 2011, which coincided with PARE’s selection process, making the companies ideal candidates for recipients of technical assistance. The Institute, with PARE’s guidance, provided a range of on the job training sessions to internal auditors employed with Toplana and VIK on internal audit roles, international audit standards and legal framework, strategic planning, enterprise risk management, and risk based auditing. These training sessions took place from September 2011 through December 2011. The training sessions were a basis for auditors with no prior professional experience to gain basic skills in the internal audit area. Further, the Institute and PARE assisted these two units with developing a set of legally required documents including: 1) Book of Rules for Internal Audit Unit with Code of Ethics, 2) Risk Assessment, 3) Strategic Audit Plan and 4) Annual Audit Plan. PARE and the Institute developed these documents and provided them to Toplana and VIK internal audit units.

In addition, it was concluded that the first audit at these two companies should be done with the assistance of the Institute as practical exercise.

PARE’s approach with the third public enterprise, Park, from Sarajevo has been different, as the company has had a relatively developed internal audit unit since 2009. To date, it

has developed all relevant documents for its work, including a Book of Rules on Internal Audit, its own internal audit handbook, and strategic and annual audit plans.

Thus, PARE and the Institute made a decision to carry out an external assessment of Internal Audit Department Compliance with IIA Global Standards and Code of Ethics. The assessment has shown that Park's Internal Audit Department has been generally aligned with international audit standards, yet a list of recommendations for improvement was provided. In addition, PARE and the Institute assisted Park's internal auditors to conduct the audit of fixed assets.

On February 17, 2012, PARE organized a workshop, facilitated by Grant Thornton consultants, in order to present the accomplishments in each respective company. The event was attended by the three companies' internal auditors who had the opportunity to present their internal audit skills and knowledge gained through technical assistance provided by PARE. At this event, upper management from each of the companies had the opportunity to become familiar with the importance of the internal audit function, as an added value to their companies. The management thanked PARE and USAID for assisting their internal audit departments and highly praised this project activity.

E. USAID Development Credit Authority (DCA) Loan Portfolio Guarantee (LPG) Facility

During the reporting period, the following DCA activities/requirements were realized:

- Semi-annual Loan Schedule Reports (periods October 01, 2010 – March 31, 2011 and April 01, 2011 – September 30, 2011) were successfully completed by the BiH DCA LPG partner banks (UniCredit Bank and Volksbank BH) and (Raiffeisen Bank BiH, Volksbank BH and UniCredit Bank) respectively, through the USAID Internet-based Credit Management System. The report of the current DCA facility in BiH is presented below in the table “DCA LPG Summary as of September 30, 2011“

Note:

The three Guarantee Agreements (No. DCA-LPG-168-03-001, DCA-LPG-168-03-002 and DCA-LPG-168-03-003) signed with BiH DCA partner banks Intesa Sanpaolo Banka Bosna i Hercegovina (previously UPI Banka), UniCredit Bank (previously Zagrebacka Banka) and Volksbank BH respectively, expired in September 2011.

The final report on these three guarantees is presented below in the table “DCA LPG Summary - Expired DCA Guarantees“

- The Annual Certifications of Post-Claim Recoveries (Certifications for Net Recoveries and the Schedules of Net Recoveries) were completed and submitted to the USAID/Washington, Office of Development Credit. The two BiH DCA partner banks (UniCredit Bank and Intesa Sanpaolo Bank BiH) certified that there were no recoveries collected subsequent to the Claims paid by USAID while Volksbank BH certified recoveries in the amount of KM 3,555.02, since the last certification of post-claim recoveries. Volksbank also reimbursed USAID on pro rata basis (amount of KM 694.76) after a deduction of reasonable expenses incurred in its collection efforts.
- The DCA Checklist Forms on the DCA Portfolio Environmental Changes and Environmental Policy Changes dated April 19, July 14, October 18, 2011 and January 19, 2012 were fulfilled with UniCredit Bank. The Bank reported that there were no changes related to environmental issues.
- One Request for Payment of Claim (for the company Zlatna Dolina from Stolac) submitted by Volksbank BH was analyzed and memorandum on the approvability of the request was prepared and delivered to USAID Sarajevo on July 25, 2011. This Volksbank’s Claim Request amounted KM 350,809.66 was paid by USAID on August 22, 2011.
- Request for Exception (for a loan amounted KM 1,500,000 where portion of the loan was made in connection with refinancing, repayment or repurchase of an existing loan) for the company Guzijan Pasuscuro from Laktasi was submitted by the Raiffeisen Bank BiH on March 30, 2011. The submitted and additionally collected documents and reports were reviewed and analyzed, and a memorandum on approvability of this request was delivered to USAID on April 4, 2011, along with comments and recommendations prepared by the USAID Fostering Markets Activity (FARMA) Project Agricultural Finance Specialist. Approval of this

request for exception was issued by USAID on April 11, 2011 and submitted to the Bank. The loan was placed under the DCA coverage on April 12, 2011.

- Request for Exception (for a loan amounted KM 5,300,000) for the company Interlignum from Teslic was submitted by UniCredit Bank, on October 28, 2011. These documents were reviewed and analyzed, additional documents/reports/data were collected and the company was visited (site visit) together with the representatives of the Bank and the USAID Fostering Interventions for Rapid Market Advancement (FIRMA) project. As a result, a Memorandum on approvability of the request was prepared and delivered to USAID Sarajevo on October 20, 2011. A meeting between the representatives of the Bank (Aleks Bakalovic, Dijana Katic, Amina Mahmutovic, Zeljka Mandic, Nikola Raspudic), USAID (David Lieberman, Amira Vejzagic-Ramhorst) and PARE (Muhiba Adanalic) was held on November 4, 2011 for further discussion on issues involved in the loan request. Approval of this request for exception was issued by USAID on November 18, 2011 and submitted to the Bank.

As of March 4, 2012 the Bank neither disbursed the loan funds to the company, nor placed the loan under the DCA coverage.

- Four presentations on the DCA LPG facility in BiH and DCA Guarantee Agreement signed with UniCredit Bank (validity period 2006-2016) were presented by Muhiba Adanalic, PARE DCA Specialist in Mostar (May 23, 2011) and Sarajevo (May 27, 2011). The 87 participants, UniCredit Bank financial advisors/sales officers were acquainted with the DCA Guarantee experiences/results and standard terms and conditions.

DCA LPG Summary – Expired DCA Guarantees

	UPI / Intesa Sanpaolo Bank BiH	(%)	Volksbank BH	(%)	Zagrebačka / UniCredit Bank	(%)	Total	(%)
Guarantees								
Number	168-03-001		168-03-003		168-03-002			
Start date	7/8/2003		8/7/2003		8/27/2003			
End date	7/8/2010		8/7/2010		8/27/2010			
Loans (US\$)								
Approved	10,000,000	100.00%	12,000,000	100.00%	9,000,000	100.00%	31,000,000	100.00%
Used	7,623,198	76.23%	10,562,232	88.02%	8,712,849	96.81%	26,898,279	86.77%
Available								
Expired	2,376,802	23.77%	1,437,768	11.98%	287,151	3.19%	3,814,570	12.31%
Portfolio (#Loans)								
# Allowed Loans	82	100.00%	39	100.00%	52	100.00%	173	100.00%
Agriculture	43	52.44%	27	69.23%	36	69.23%	106	61.27%
Wood industry	39	47.56%	11		6	11.54%	56	32.37%
Tourism			1	2.56%	10	19.23%	11	6.36%
Metal				12.82%				
Other								
# Claimed Loans	9	10.98%	5	12.82%	3	5.77%	17	9.83%
Claims (US\$)								
Total	961,157	100.00%	551,445	100.00%	154,589	100.00%	1,667,191	100.00%
Paid	961,157	100.00%	551,445	100.00%	154,589	100.00%	1,667,191	100.00%
Pending	-	-	-	-			-	-
Employment Summary								
Current	1357		484		628		2469	
Planned	54		269		188		511	
Loan details Summary								
Average Loan Size (US\$)	88,332		256,521		171,056			
Average Tenure (Days)	382		1790		1641			
Fees Summary (US\$)								
Total Fees Paid	32,850		98,027		70,615		201,492	

DCA LPG Summary as of September 30, 2011

	Raiffeisen Bank BiH (1)	(%)	Volksbank BH (2)	(%)	Total (1+2)	(%)	UniCredit Bank	(%)
Guarantees								
Number	168-010-008		168-010-007				168-06-005	
Start date	9/28/2010		9/28/2010				9/30/2006	
End date	9/28/2020		9/28/2020				9/29/2016	
Loans (US\$)								
Approved	20,000,000	100.00%	20,000,000	100.00%	40,000,000	100.00%	16,000,000	100.00%
Used	1,312,214	6.56%	2,121,418	10.61%	3,433,632	8.58%	4,659,997	29.12%
Available	18,687,786	93.44%	17,878,582	89.39%	36,566,368	91.42%	11,340,003	70.88%
Ending balance	1,276,822		2,069,345				1,770,347	100.00%
Total in Arrears	-		-				1,200,303	67.80%
Portfolio (#Loans)								
# Allowed Loans	2	100.00%	4	100.00%	6	100.00%	34	100.00%
Agriculture	1	50.00%		0.00%	1	16.67%	15	44.12%
Wood industry							12	35.29%
Tourism	1	50.00%	2	50.00%	3	50.00%	7	20.59%
Metal			2	50.00%	2	33.33%		
Other								
# Claimed Loans							1	
Claims (US\$)								
Total	-	-	-	-	-	-	23,121	100.00%
Paid	-	-	-	-	-	-	23,121	100.00%
Pending	-	-	-	-	-	-	-	
Employment Summary								
Current	43		196		239		379	
Planned	16		33		49		91	
Loan details Summary								
Average Loan Size (US\$)	939,322		531,481				132,827	
Average Tenure (Days)	2181		2190				1701	
Fees Summary (US\$)								
Total Fees Paid	37,500		37,876				34,055	
Portfolio at Risk								
# Active Loans	2		4				24	
Total # Loans in Arrears (1+ Days)	-		-				7	
Portfolio in Arrears (1+Days)							67.80%	
# Loans in Arrears(91+Days)	-		-				2	
Portfolio in Arrears(91+Days)							5.10%	

Note - Volksbank BH placed fifth loan (company EKO ENERGIJA from Kalesija) in the amount of app. US\$ 380,097 under the DCA coverage on November 8, 2011

F. Training Activity

During Year 4, USAID PARE arranged **19** training programs and public events, including seminars, workshops, conferences, study tours, short courses, and on-the-job trainings complimented by technical meetings, which took place in BiH and third countries. During this period most of the programs took place in BiH in order to reach larger groups, take advantage of the ever-deepening pools of local experts, and help capacity strengthening in BiH. These training activities supplemented the project's technical assistance, which supports project counterparts in strengthening the regulatory system for financial services, improves the financial administration of public resources, and enhances the environment for private sector investments. The topics of training activities included banking supervision, deposit insurance, financial regulation and oversight, strengthening internal audit functions, and other related subjects. Below is the list of training activities and public events organized during the reporting period.

1. US Study Tour Award Ceremony (April 1, Sarajevo, 2011);
2. Banking Supervision Reforms-Risk Management Decree Study Tour (April 4-8, 2011, Ljubljana, Slovenia);
3. Letter of Intent between USAID PARE and the Internal Audit Institute of BiH Signing Ceremony (May 6, 2011, Sarajevo, BiH);
4. Financial Econometrics (May 10-11, 2011, Sarajevo, BiH);
5. Provisional Administration and Insured Deposit Payout (June 11, 2011, Sarajevo, BiH);
6. Lead Banking Supervision Coordination Meeting (July 1, 2011, Sarajevo, BiH);
7. Training Sessions for Financial Coordination Unit of the Ministry of Finance and Treasury of BiH (August 23-24, 2011, Sarajevo, BiH);
8. Internal auditing across the public sector Training-of-Trainers (August 22-September 2, 2011, Sarajevo, Zenica, Banja Luka, BiH);
9. BiH Banking Reforms towards EU Accession Roundtable (September 23, 2011, Sarajevo, BiH);
10. Financial Coordination Unit (FCU) Training Session II – Central Banking and the Central Bank of BiH (September 26, 2011, Sarajevo, BiH);
11. Conformity Assessment of the Deposit Insurance System in BiH (September 26-30, 2011, Banja Luka, BiH);
12. Presentations of Leasing Assessment (October 5-7, 2011, Sarajevo, BiH);
13. Financial Coordination Unit (FCU) Training Session III – Financial Development, Economic Growth and Banking (October 11-14, 2011, Sarajevo, BiH);
14. Capacity Building for the Risk-based Banking Supervision Framework (October 25-27, 2011, Konjic, BiH);
15. Regulatory Framework for Banking Supervision in compliance with International Standards (November 10-11, 2011, Opatija, Croatia);
16. Financial Coordination Unit (FCU) Training Session IV – Capital Market Development (November 21-23, 2011, Sarajevo, BiH);
17. Macroeconomic Analysis and Design of Macro-financial Reports (December 19-20, 2011, Sarajevo, BiH);
18. Confidentiality Issue Technical Meeting (February 1, Sarajevo, BiH);
19. Establishment of Internal Audit Function in Public-owned Enterprises (February 16, 2012, Sarajevo, BiH)

A brief summary of the goals and objectives for each training activity organized by the project can be found in Annex 4.

G. Other Program Activities

Project Web-site

The project web site continues to provide a high level of project visibility and to inform the broader public of progress within the three project components, including the highlights from the training sessions and public events. Additionally, the PARE website has sections containing press coverage and a photo gallery that includes reports from various media outlets about project trainings/events. The project web site address is www.usaidpare.ba.

Web-based Educational Component

PARE, in partnership with the Central Bank of Bosnia and Herzegovina (CBBH), has facilitated Web-based Financial and Economic Educational Components on the CBBH Web site. The first of its kind in BiH, the educational components provide technical information on financial services that are new to BiH including capital markets, leasing, factoring and banking services, and includes information about credit cards, current accounts, loans and personal loans, mortgage loans, and savings accounts. This financial education is meant to provide consumers with the knowledge, skills and confidence to understand and evaluate the information they receive and enable them to purchase the financial products and services they need. Moreover, the continuous financial and economic education of PARE's target audience is a pre-condition for successful implementation of the activities and reforms that the project is currently undertaking. The web-based educational components are accessible at www.cbbh.ba

H. PARE's Participation at Select Major Events

Other Selected Events

- On the Road to the EU –Challenges Ahead, Central Banking Seminar on European Integrations, April 12, 2011, Sarajevo.
- Annual Conference of the Internal Audit Institute (IAI) of BiH, April 13-15, 2011, Sarajevo.
- 6th Annual Event on Competitiveness, Finance and Economic Growth, May 17-19, 2011, Budapest, Hungary.
- Motor Third -Party Liability Insurance 2011, Regional Conference, May 19, 2011, Sarajevo.
- International Conference of Deposit Insurers, organized by DIA and partially funded by USAID Partners for Financial Stability (PFS) project, December 7-9, 2011, Sarajevo

SECTION IV. CONSOLIDATED PERFORMANCE MANAGEMENT REPORT

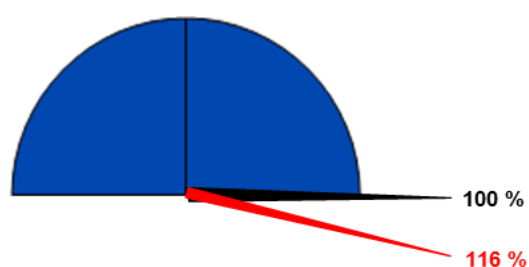
Four Years Project Completion Rate – Table 1

PARE's activities, performance, and progress were measured on the basis of the Project Performance Monitoring Plan (PMP), actual for Y4 versus the Y4 target and actual Project Start to Date (PSD) and compared to the 4 Year Life of Project (LOP) plan.

No.	Indicator	(1) Y4 Result	(2) Y4 Target	(3) Y4 Rate	(4) PSD Result	(5) LOP Target	(6) PSD Rate
	Explanation			(1)/(2)			(4)/(5)
1	Number of internationally recognized financial-sector standards adopted as a result of USG assistance (F Indicator 3)	6.17	2.0	308%	13	9	144%
2	Level of counterpart satisfaction with the quality of the technical assistance and deliverables	4.75	4	119%	4.76	4	119%
3	Number of financial-sector supervisors trained with USG assistance (F Indicator 1)	161	165	98%	610	552	110%
4	Progress toward banking supervision framework that promotes effective consolidation at the state level (milestones)	-	-	-	6	6	100%
5	Percentage of inspections and directives issued that are compliant with current laws	-	-	-	100%	100%	100%
6	Progress toward IAIS-based insurance supervision framework that contributes to consolidation of economic space for the insurance sector (milestones)	-	-	-	2.5	4	63%
7	Progress toward establishing a fixed income securities market with appropriate supervision and oversight (milestones)	/	/	n/a	/	/	n/a
8	Progress toward reform of targeted leasing and factoring policy or regulation (milestones)	-	-	-	2	3	67%
9	Number of steps achieved toward a revised DIA investment strategy that incorporates EU best practices	-	-	-	7	7	100%
10	Updated model regarding eligible deposit threshold incorporating considerations of EU standards developed and implemented	-	-	-	1	1	100%
11	Number of by-laws (rulebooks, guidelines, etc) developed with project assistance in Private Pension Fund	-	-	-	5	2	250%
12	Number of national executive oversight actions taken by legislature receiving USG assistance (F Indicator 5)	-	-	-	63	61	103%
13	Number of mechanisms for external oversight of public resources supported by USG assistance and implemented (F Indicator 6)	-	-	-	14	12	117%
14	Number of media and public awareness events about SAIs' reports, audit findings, recommendations, and proceedings held	-	-	-	121	58	209%
15	Number of pilot internal audit departments established and operational in governments and/or public enterprises	3	2	150%	4	3	133%
16	Number of certification programs for financial sector professionals offered by professional as a result of project assistance	/	0	n/a	/	0	n/a

No.	Indicator	(1) Y4 Result	(2) Y4 Target	(3) Y4 Rate	(4) PSD Result	(5) LOP Target	(6) PSD Rate
17	Number of national legislators and national legislative staff attending USG sponsored training or educational events (F Indicator 4)	43	15	287%	105	80	131%
18	Number of financial-sector professionals trained on international standards this year with USG assistance (F Indicator 2)	136	114	119%	353	328	108%
19	Set of articles for the Banking Law and other legislation that will enable implementation of the Regulatory Framework (yes/no)	1	1	100%	1	1	100%
20	Glossary of Financial Terms developed (yes/no)	1	1	100%	1	1	100%
21	Progress toward private sector engagement in banking supervision reforms through UBBH (milestones)	3	3	100%	3	3	100%
22	Progress toward establishment of Banking Supervision Council (BSC)/Financial Development Council	3	4	75%	3	4	75%
23	Progress toward building capacity of the BiH Ministry of Finance and Treasury (milestones)	4	4	100%	4	4	100%
	TOTAL:						116%

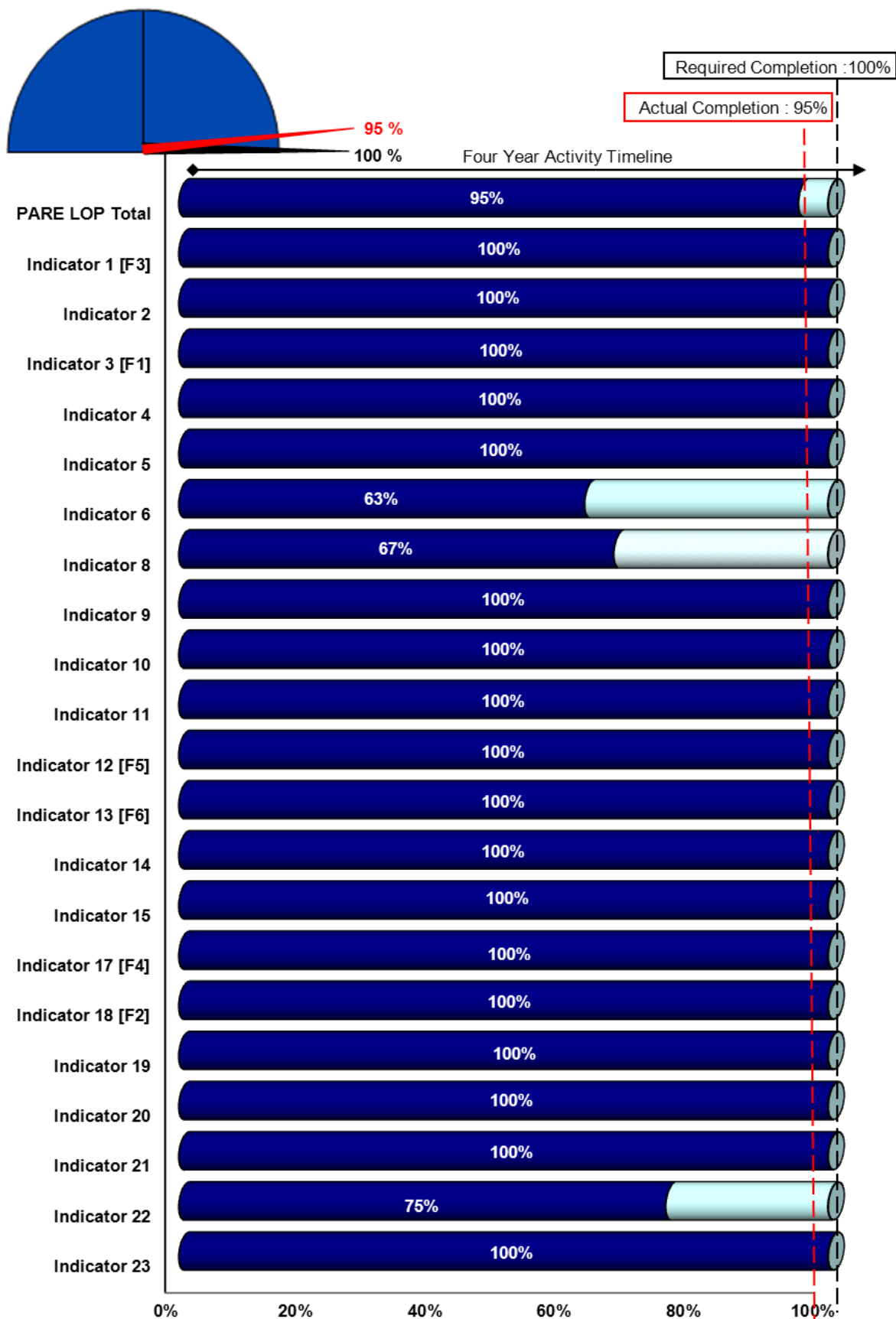
Graphic illustration of overall project completion rate



Legend:

- Required completion
- Actual completion

Four Years Project Completion Rate – Table 2



Explanations to the Consolidated Performance Management Report Tables:

The Four Year Project Completion Rate –Table 1 shows that PARE technical assistance was completed with rate of 116% relative to the defined performance management indicators.

The Four Year Project Completion Rate - Table 2 shows that the PARE's overall accomplishment rate amounts to 95%. The following assumptions were used to present the project performance in the indicated period:

- Two indicators (Indicators No.7 and 16) were not included in the rate calculation, as no technical assistance activities were conducted in these areas, as directed.
- Rates of ten indicators (Indicators No. 1, 2, 3, 11, 12, 13, 14, 15, 17, and 18) although exceeding 100% were rated as 100%
- Three Indicators (Indicators No. 6, 8, and 22) were rated below 100% due to the following reasons/developments:
 - PARE was advised to re-prioritize technical assistance activities and therefore technical assistance to insurance sector was reduced. (Indicator No 6. - Progress toward IAIS-based insurance supervision framework that contributes to consolidation of economic space for the insurance sector (milestones)
 - PARE limited its technical assistance to the leasing sector in the area of legislative framework and supervision, as advised. (Indicator No 8. - Progress toward reform of targeted leasing and factoring policy or regulation (milestones))
 - A fifteen-month delay in the state government formation impacted progress towards toward establishment of Financial Development Council (Indicator No. 22- Progress toward establishment of Banking Supervision Council (BSC)/Financial Development Council (milestones))

SECTION V. ADMINISTRATION AND PROJECT MANAGEMENT

To implement its demand-driven approach and broad scope of work, PARE's core team of long-term technical staff, located in Sarajevo, facilitated communication and built relationships with counterparts and partners countrywide. This core team is complemented by short-term technical assistance from local and international specialists who provide a range of specific technical expertise in a targeted and cost-efficient manner. The project field office team is supported by a project management unit (PMU) in Chemonics' home office.

The PARE COP Berina Selimovic-Mehmedbasic manages overall implementation of project activities, relationship-building with counterparts, and the monitoring of project results. Each member of the core team is assigned two or three specific activities across project components to ensure accountability and consistency for each results area. PARE activities are divided among Slavisa Rakovic (economic specialist) and Amil Kamenica (financial sector associate). In addition, Muhiba Adanalic, the DCA/M&E specialist, manages USAID's DCA portfolio and works with the core team to monitor project performance against the established indicators. Amra Softic (communications and training specialist) focuses primarily on administration of training and communication activities. The office manager/accountant, Sanin Muftic, oversees the operations of this team. The administrative staff is responsible for the project's administrative, logistical, accounting, and compliance functions.

With PARE's broad scope and specialized needs, short-term consultants are important resources. These consultants provide expert assistance to help effectively implement the project's objectives with the project counterparts. To provide consistency, in some cases PARE has identified expatriate and local short-term consultants who can provide intermittent technical assistance in their relevant areas of expertise. This support, from a variety of experts, helps the project to maintain the momentum necessary to achieve results in an extremely broad range of financial services technical areas. The PMU maintains a roster of highly qualified local and expatriate consultants who can provide targeted technical assistance in an extensive range of technical areas.

The project is backstopped by the home-office PMU, which assists with recruiting and fielding short-term specialists, budgeting, technical/contractual reporting, contract compliance, and administrative and technical support. The PMU provides support to the field to navigate USAID regulations and comply with reporting expectations.

SECTION VI. ANNEXES

Annex 1 - Detailed PMP

Annex 2 - List of Counterparts

Annex 3 - Success Stories

Annex 4 - Training Activity Summaries

Annex 5 – Graphical presentation of the Reform Process in Banking Supervision

ANNEX 1 – DETAILED PMP REPORT

Indicator 1: Number of internationally recognized financial sector standards adopted as a result of USG assistance (F Indicator 3)

Results Summary								
Y4 Result	6.17	Y4 Target	2.0	LOP Target				9
Steps/ Explanation	Trading Standards	Risk Management	ICAAP	Liquidity	Credit Risk-IRB	Credit Risk Mitigation	ECAIs	Large Exposure
1. <u>Strategy</u>	1	1	1	1	1	1	1	1
2. <u>Action Plan</u>	1	1	1	1	1	1	1	1
3. <u>2009/2010/ 2011 Plan</u>	1	1	1	1	1	1	1	1
4. <u>Theoretical Preparation</u>	1	1	1	1	1	1	1	1
5. <u>Technical Work</u>	1	1	1	1	1	1	1	1
6. <u>Draft of Decision</u>	1	1	1	1	1	1	1	1
Completed	50%	33%	67%	67%	100%	100%	100%	100%

Total in Y4

6.17

Legend: Black numbers marked the standards (steps) completed in the PARE previous years

Red numbers marked the standards (steps) completed in the PARE Y4

Explanation of F3 Indicator

The PARE Project has started usage of selected US Standard Foreign Assistance “F” Indicators since its Y2, as presented in the 2009 project work plan. These indicators were selected from the list of Financial Sector “F” indicators (available at that time) and agreed with USAID. The “F” indicators terminology has been used in the PMP over the life of project to consistently measure results and progress in implementation of technical assistance provided under the project mandate.

Indicator No. 1 (F indicator 3) has been used to report the results of USG assistance in promoting the adoption of internationally recognized financial sector standards. The measurement of PARE indicator 1 (“F” indicator 3) and progress towards targets were explained and documented through six steps. These steps were consistently used for project progress reporting purposes from the Y2 Quarter 2 Progress Report dated September 2009 onwards. These steps were defined in a manner to address complexity, duration, and process of the development and adoption of the Basel II/III standards.

Over the life of the project, the F3 indicator has been used to measure the project progress on developing of the list of thirteen financial sector standards, as follows:

1. Credit Risk Decree – Standardized Approach
2. Credit Risk Decree – Internal Rating Based (IRB) Approach
3. Credit Protection (Risk Mitigation) Decree
4. Decree on Recognition of External Credit Assessment Institutions (ECAIs)
5. Large Exposures Decree
6. Operational Risk Decree
7. Market Risk Decree
8. Own Funds Decree
9. Risk Management Decree
10. Guidelines on Internal Capital Adequacy Assessment Process (ICAAP)
11. Guidelines on Trading Standards For Banks
12. Liquidity Risk Management Decree
13. Decree on Disclosures by Banks

Indicator 2: Level of counterpart satisfaction with the quality of the technical assistance and of deliverables (satisfaction is rates from 1-5)

Results Summary

Y4 Result	4.75*	Y4 Target	4	LOP Target	4
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The indicator on counterpart satisfaction was calculated using the submitted evaluations of the seminars/workshops on:

- Risk Management Decree dated April 4-8, 2011
(Qualitative indicator = 4.81)
- Financial Econometrics dated May 10-11, 2011
(Qualitative indicator = 4.34)
- Provisional Administration and Insured Deposit Premiums Payout dated June 15, 2011 (Qualitative indicator = 4.86)
- Financial Development, Economic Growth and Banking (for MFT FCU) dated October 11-14, 2011 (Qualitative indicator = 4.98)
- Risk based Banking Supervision Framework dated October 25-27, 2011
(Qualitative indicator = 4.64)
- Macroeconomic Analysis and Design of Macro-financial Reports dated December 19-20, 2011 (Qualitative indicator=4.87)

*Note- $(4.81+4.34+4.86+4.98+4.64+4.87=28.5/6=4.75)$

Indicator 3: Number of financial-sector supervisors trained with USG assistance (**F Indicator 1**)

Results Summary

Y4 Result	161	Y4 Target	165	LOP Target	552
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In total 161 supervisors attended the following events organized by the PARE project:

Seminars

- Risk Management Decree - April 4-8, 2011.
- Provisional Administration and Insured Deposit Premiums Payout - June 15, 2011
- Financial Development, Economic Growth and Banking-October 11-14, 2011
- Capital Markets Development – November 21-22, 2011
- Applied Macroeconomic Analysis and preparation of the Report-December 19-20, 2011

Technical Meetings/Presentations

- Liquidity Risk - April 20, 2010
- Trading Standards for Bank- April 27, 2011
- Risk Management Decree - April 28-29, 2011
- Risk Management Decree Finalization - May 30, 2011
- Basel II Coordination Meeting - July 1, 2011
- Leasing Assessment - October 5, 2011
- Confidential Issue Definition and Alignment – December 16, 2011 and February 1, 2012

Workshops

- Introduction to Financial Econometrics- May 10-11, 2011
- Capacity Building for the Risk-based Banking Supervision Framework, Konjic-October 25-27, 2011

Conference

- BiH Banking Reforms towards EU Accession Roundtable- September 23, 2011
- Regulatory Framework for Banking Supervision, Opatija – November 9-12, 2011

Training

- DIA Conformity Assessment (on the job training), Banja Luka –September 26-30, 2011

The Participants included 68 men and 93 women from the following institutions:

- 128 from entity BSAs
- 20 from CBBH
- 13 from DIA

Indicator 15: Number of pilot internal audit departments established and operational in governments and/or public enterprises

Results Summary

Y4 Result	3	Y4 Target	2	LOP Target	3
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PARE team has supported public Park from Sarajevo, Vodovod i Kanalizacija (VIK) from Zenica (Water and Sewage Utility) and Toplana from Banja Luka (Central Heating Utility) in establishing IA pilot units.

Indicator 17: Number of national legislators and national legislative staff attending USG sponsored training or educational events (**F Indicator 4**)

Results Summary

Y4 Result	43	Y4 Target	15	LOP Target	80
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In total 43 national legislators and national legislative staff attended the following events organized by the PARE project:

Technical Meetings

- Capacity building session - June 16, 2011
- Confidential Issue Definition and Alignment – December 16, 2011

Seminars

- Provisional Administration and Insured Deposit Premiums Payout – June,15 2011
- Central Banking and CBBH- September 26,2011
- Financial Development, Economic Growth and Banking-October 11-14, 2011
- Capital Markets Development-November 21-22, 2011
- Applied Macroeconomic Analysis and preparation of the Report-December 19-20, 2011

Trainings

- Training program for Financial Coordination Unit – August 23-24, 2011

Conference

- BiH Banking Reforms towards EU Accession Roundtable-September 23, 2011

The participants list included 7 men and 36 women

Indicator 18: Number of financial-sector professionals trained on international standards this year with USG assistance (**F Indicator 2**)

Results Summary

Y4 Result	136	Y4 Target	114	LOP Target	328
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In total 136 professionals attended the following events organized by the PARE project:

Technical Meetings/Presentations

- Basel II Liquidity Risk - April 18, 2011
- Leasing Assessment- October 7, 2011

- Internal Audit - Toplane Banja Luka
- Internal Audit - VIK Zenica
- Round Table
- Internal Audit in Public Enterprise - May 6, 2011
- Workshops
- Introduction to Financial Econometrics- May 10-11, 2011
- Capacity Building for the Risk-based Banking Supervision Framework, Konjic- October 25-27, 2011
- Developing Internal Audit in Public Enterprises in BiH-February 16, 2012
- Seminars
- DIA Risk Premium Model - May 23-27, 2011.
- Provisional Administration and Insured Deposit Premiums Payout – June,15 2011
- Trainings
- Internal Audit Institute of BiH (IAI) Training for trainers – August 22-September 2, 2011
- Conference
- BiH Banking Reforms towards EU Accession Roundtable- September 23, 2011
- Regulatory Framework for Banking Supervision, Opatija – November 9-12, 2011

The participants list included 73 men and 63 women from the following institutions:

- 6 from DIA
- 4 from Banks association of BiH (UBBH)
- 8 from Leasing companies
- 24 from commercial banks
- 94 from other institutions

Indicator 19: Set of articles for the Banking Law and other legislation that will enable implementation of the Regulatory Framework (yes/no)

Results Summary					
Y4 Result	1	Y4 Target	1	LOP Target	1

Set of articles for the Banking Law was developed through completion of risk based supervision regulatory framework

Indicator 20: Glossary of Financial Terms developed (yes/no)

Results Summary					
Y4 Result	1	Y4 Target	1	LOP Target	1

100% of the Financial Terms Glossary was developed and integrated in the Definition chapter of Banking Supervision Regulatory Framework Decrees.

Indicator 21:Progress toward private sector engagement in banking supervision reforms through UBBH (milestones: (1) action plan developed, (2) UBBH committee for banking supervision reform established, (3) implementation stage)

Results Summary					
Y4 Result	3	Y4 Target	3	LOP Target	3

Banking Association and PARE conducted research on preparedness of banking industry for adoption of new banking supervision regulatory reform package. This research

analyzed both quantitative and qualitative factors and impact of new regulations on the representative sample of 10 banks in BiH.

The results were presented at the BiH Banking Reforms towards EU Accession Roundtable (September 23, 2011). The roundtable also discussed the models for collaboration of banking industry and regulators in preparation of implementation of the new regulatory framework. PARE, also included staff of BiH banks in the capacity building activities alongside with staff of supervisory bodies within sessions of Econometrics, Modeling and VaR. (market risk).

Indicator 22: Progress toward establishment of banking Supervision Council (BSC/Financial Development Council (FDC))(milestones: (1) concept paper on BSC/FDC updated, (2) working group within Ministry of Finance and Treasury fully established, (3) draft law on BSC/FDC updated, (4) bill of law on BSC/FDC prepared)

Results Summary					
Y3 Result	3	Y3 Target	4	LOP Target	4

Draft law on BSC/FDC was updated in February 2012.

Indicator 23: Progress toward building capacity of the BiH Ministry of Finance and Treasury (milestones: (1) capacity needs identified, (2) action plan prepared, (3) financial unit organization structure proposed, (4) implementation stage)

Results Summary					
Y4 Result	4	Y4 Target	4	LOP Target	4

PARE organized 5 (five) capacity building trainings to the Ministry of Finance and Treasury of BiH – Financial Coordination Unit (FCU), in accordance with the provisions of Letter of Intent signed between PARE and Ministry of Finance and Treasury of BiH.

ANNEX 2 – LIST OF COUNTERPARTS

PIR 1: Regulatory System for Financial Services Sector Strengthened

KRA 1.1: Banking supervision improved

Institution	Town	Address	Tel/Fax	Web site
Banking Agency of the Federation of Bosnia and Herzegovina Agencija za bankarstvo Federacije Bosne i Hercegovine (FBA)	Sarajevo	Koševo 3	033 721 400	www.fba.ba
Banking Agency of the Republic of Srpska Agencija za bankarstvo Republike Srpske (ABRS)	Banja Luka	Vase Pelagića 11 A	051 218 111 051 216 665	www.abrs.ba

KRA 1.2: Insurance supervision improved

Institution	Town	Address	Tel/Fax	Web site
Insurance Agency of Bosnia and Herzegovina Agencija za osiguranje u Bosni i Hercegovini	Sarajevo	Obala Kulina Bana 4/II	033 554 795 033 554 796	www.azobih.gov.ba
Insurance Supervisory Agency of the Federation of Bosnia and Herzegovina Agencija za nadzor osiguranja Federacije Bosne i Hercegovine	Sarajevo	Kolodvorska 12	033 610 897 033 611 114	www.nados.ba
Insurance Agency of the Republic of Srpska Agencija za osiguranje Republike Srpske	Banja Luka	Bana Milosavljevića 8/II	051 228 910 051 228 920	www.azors.org
Protection Fund of the Federation of Bosnia and Herzegovina Zaštitni Fond Federacije Bosne i Hercegovine	Sarajevo	Mis Irbina 5	033 213 723	
Protection Fund of the Republic of Srpska Zaštitni Fond Republike Srpske	Banja Luka	Solunska 10	051 226 091	

KRA 1.3 - Capital market's surveillance capacity and compliance with standards improved

Institution	Town	Address	Tel/Fax	Web site
Securities Commission of the Federation of Bosnia and Herzegovina Komisija za vrijednosne papire Federacije Bosne i Hercegovine	Sarajevo	Čemaluša 9/II	033 203 862 033 211 655	www.komvp.gov.ba
Securities Commission of the Republic of Srpska Komisija za hartije od vrijednosti Republike Srpske	Banja Luka	Vuka Karadžića 6	051 218 362 051 218 361	www.sec.rs.ba
The Sarajevo Stock Exchange – SASE Sarajevska berza/burza vrijednosnih papira	Sarajevo	Đoke Mazalića 4	033 251 460 033 559 460	www.sase.ba
Banja Luka Stock Exchange – BLSE Banjalička berza hartija od vrijednosti	Banja Luka	Petra Kočića bb	051 326 041 051 326 056	www.blberza.com

KRA 1.5: Deposit Insurance Agency's investment strategy, deposit threshold model, and deposit premiums updated

Institution	Town	Address	Tel/Fax	Web site
Deposit Insurance Agency of Bosnia and Herzegovina (DIA) Agencija za osiguranje depozita Bosne i Hercegovine	Sarajevo	Jadranska bb	033 226 323 033 220 308	www.aod.ba
	Banja Luka	Vase Pelagića 11a	051 223 440 051 223 452	

KRA 1.6 Private Pension Fund Development Fostered

Institution	Town	Address	Tel/Fax	Web site
Securities Commission of the Federation of Bosnia and Herzegovina Komisija za vrijednosne papire Federacije Bosne i Hercegovine	Details are stated in KRA 1.3			
Insurance Agency of the Republic of Srpska Agencija za osiguranje Republike Srpske	Details are stated in KRA 1.2			
Pension Reform Commission of the Federation of Bosnia and Herzegovina Komisija za reformu penzionog sistema Vlade Federacije BiH	Sarajevo	Ložionička 2	033 723 131 033 723 200	

KRA 1.7: Central Bank alignment with EU best practices improved

Institution	Town	Address	Tel/Fax	Web site
Central Bank of Bosnia and Herzegovina (CBBH) Centralna Banka Bosne i Hercegovine	Sarajevo	Maršala Tita 25	033 278 201 033 201 517	www.cbbh.ba

Institution	Town	Address	Tel/Fax	Web site
Ministry of Finance and Treasury of Bosnia and Herzegovina Ministarstvo finansija i trezora Bosne i Hercegovine	Sarajevo	Trg BiH 1	033 205 345 033 202 930	www.trezorbih.gov.ba
Ministry of Finance of the Federation of Bosnia and Herzegovina Ministarstvo finansija Federacije BiH	Sarajevo	Mehmeda Spahe 5	033 253 400	www.fmf.gov.ba
Ministry of Finance of Republic of Srpska Ministarstvo finansija Republike Srpske	Banja Luka	Trg Republike Srpske 1	051 339 155 051 339 645	www.vladars.net

PIR 2: Financial Administration of Public Resources Improved

KRA 2.1 Parliamentary committees overseeing public-sector audits enhanced

Institution	Town	Address	Tel/Fax	Web site
Committee for Finance and Budget House of Representatives of BiH Parliamentary Assembly Komisija za finansije i budžet Predstavničkog doma Parlamenta BiH	Sarajevo	Trg BiH 1	033 284 437 033 233 480	www.parlament.ba
Committee for Finance and Budget House of Peoples of BiH Parliamentary Assembly Komisija za finansije i budžet Doma naroda Parlamenta BiH	Sarajevo	Trg BiH 1	033 284 463 033 233 480	www.parlament.ba
Joint Audit Committee - Parliament of the Federation of Bosnia and Herzegovina Zajednička Komisija za reviziju Parlamenta Federacije Bosne i Hercegovine	Sarajevo	Hamdije Kreševljakovića 3	033 203 658	www.parlamentfbih.ba
Audit Committee of the National Assembly of Republika Srpska Odbor za reviziju Narodne Skupštine Republike Srpske	Banja Luka	Vuka Karadžića 2	051 338 115	www.narodnaskupstinars.net

KRA 2.2 Public awareness of audit findings improved

Institution	Town	Address	Tel/Fax	Web site
Audit Office of the Institutions of Bosnia and Herzegovina Ured za reviziju institucija Bosne i Hercegovine	Sarajevo	Hamdije Čemerlića 2/XIII	033 703 573 033 703 565	www.revizija.gov.ba
Audit Office for the Institutions of the Federation of Bosnia and Herzegovina Ured za reviziju institucija u Fedearciji Bosne i Hercegovine	Sarajevo	Ložionička 3	033 723 550 033 716 400	www.saifbih.ba
The Supreme Office for the Republic of Srpska Public Sector Auditing Glavna služba za reviziju javnog sektora Republike Srpske	Banja Luka	Vuka Karadžića 4	051 247 408 051 247 497	www.gsr-rs.org

KRA 2.3 Pilot internal controls and audit units established

Institution	Town	Address	Tel/Fax	Web site
Cantonal Public Utility Company RAD Kantonalno javno komunalno preduzece RAD	Sarajevo	Paromlinska 57	033 658 038 033 654 480	www.RAD.com.ba
Cantonal Pulic Utility Company PARK Sarajevo Kantonalno javno komunalno preduzeće PARK Sarajevo	Sarajevo	Patriotske lige 58	033 560 560 033 560 561	
Punlic Enterprise Toplana Banja Luka Javno preduzeće Toplana Banja Luka	Banja Luka	Bulevar Z.Misica 32	051 336 100	www.bltoplana.com
Public Enterprise Vodovod Zenica Javno preduzeće Vodovod Zenica	Zenica	Bistua Nuova 17	032 427-357 032 425-043	www.vikze.ba
IIA Institute of internal auditors of Bosnia and Herzegovina Institut internih revizora Bosna i Hercegovina	Sarajevo	Dolina 2/II, Marijin Dvor	033 251 700 033 251 701	www.interni-revizori.info

PIR 3: Enabling Environment for Private Sector Investment Improved

KRA 3.2: Capacity of financial services professional associations enhanced

Institution	Town	Address	Tel/Fax	Web site
Association of Accountants, Auditors and Financial Professionals of the Federation of Bosnia and Herzegovina Savez računovođa, revizora i finansijskih djelatnika u Federaciji Bosne i Hercegovine	Mostar	Kneza Višesalava 77 a	036 318 660 036 334 184	www.srr-fbih.org
Association of Accountants and Auditors of the Republic of Srpska Savez računovođa i revizora Republike Srpske	Banja Luka	Mirka Kovacevica 13a	051 431 260 051 430 200	www.srrrs.org
Association of Court Experts of the Republic of Srpska Udruženje sudskih vještaka Republike Srpske	Banja Luka	Vladike Platona 3	051 218 005 051 215 852	www.udruzenjevjestaka-rs.com
Association of Court Experts of the Federation of Bosnia and Herzegovina Udruženje sudskih vještaka Federacije Bosne i Hercegovine	Sarajevo	Ložionička 12	061 147 744 033 650 301	www.udruzenje-vjestaka.com
Association of Leasing Companies of Bosnia and Herzegovina Udruženje društava za leasing u Bosni i Hercegovini	Sarajevo	Fra Anđela Zvizdovića 1	033 202 741	www.leasing.org.ba
Banks Association of Bosnia and Herzegovina Udruženje/Udruga banaka Bosne i Hercegovine	Sarajevo	Fra Anđela Zvizdovića 1	033 296 502 033 296 509	www.ubbih.ba
Association of Microfinance Institutions in Bosnia and Herzegovina Udruženje društava mikrofinansijskih institucija u Bosni i Hercegovini	Sarajevo	Branilaca Sarajeva 20	033 205 133	www.amfi.ba

ANNEX 3 – SUCCESS STORIES



SUCCESS STORY

Regulatory Framework for Banking Supervision

Ensuring BiH's banking regulatory system remains strong and effective



In November, 2010, PARE organized a conference for the key personnel from the Banking Supervisory Agencies (BSAs) of both entities of BiH and their governing boards as well as reform coordinators from the Central Bank of BiH on the features of the international standards and the EU directives regulatory framework, developed in partnership with the participating institutions and PARE technical assistance.

The Bosnia and Herzegovina (BiH) financial services market is dominated by banking services which encompass 82 percent of financial intermediaries' assets. The major banks in BiH are foreign-owned and their expansion is hindered by the existing regulatory framework for banking and other financial services, which limits the private sector growth. To target financial sector priorities, the USAID Partnership for Advancing Reforms in the Economy (PARE) project partnered with both BiH financial institutions and the private sector to assist in the financial and banking sector reform.

Among other reform tasks, PARE worked with the Banking Supervision Agencies (BSAs) of both entities of BiH and the Central Bank of BiH to develop a single Strategy and Plan of Action to introduce a risk-based banking supervision regulation compliant with the core areas of Basel II applying to capital standards, supervisory review, market discipline based on enhanced transparency and disclosure, which the banking supervision agencies adopted in 2009. Commenting on banking supervision reform progress, the key counterparts in banking supervision stated: "We would like to express our joint satisfaction with PARE's assistance in our efforts to improve banking supervision and to meet requirements of European directives and Basel II, new international framework for banking supervision." Furthermore, in 2010, PARE helped the banking supervision agencies to establish a comprehensive banking supervision regulatory framework composed of thirteen decrees, focusing on regulatory solutions for transition to risk-based supervision. The decrees reflect the most up to date international standards for risk-based supervision recommended by the Basel Committee, EU authorities and other relevant international bodies needed to move the banking reform forward. In addition, assistance to capacity building of banking supervision agencies provided by PARE further complemented to the agencies' ability to work toward implementation of international standards introduced through this advanced regulatory framework.

PARE has marked an important stage in the continuation of USAID technical assistance to the BiH financial sector reforms including those in banking supervision. The assistance extended through the PARE project has contributed to developing sound, stable and contemporary banking system competitive enough for both its customers and new investors. Over its course, the PARE project has aligned banking supervision regulations with EU and international standards that helps develop a converged banking system across the state and entity levels which in turn facilitates financial stability and helps the economic reform process on BiH's path to the EU accession.

Developing of Set of Documents Improves Internal Audit Operations in Public Sector



USAID Mission Director Allan Reed and President of the Managing Board of the Internal Audit Institute congratulate on signing the letter of intent on cooperation with PARE, May 2011

"I wish to congratulate the Institute on signing this Letter of Intent that gives the basis for cooperation and helps strengthen internal audit functions across the public sector in BiH"

-USAID Mission Director Allan Reed

U.S. Agency for International Development
www.usaid.gov

The legal framework for public sector internal audit (IA) in Bosnia and Herzegovina (BiH) was created at the state and entity-level with involvement of the ministries of finance, supreme audit institutions (SAIs) and with assistance from the international community stakeholders in audit reforms. The general regulatory framework was created with the adoption of the Laws on Internal Audit in Public Sector at the state and entity levels in late 2008. Currently, IA functions in BiH are in development stages in most of public enterprises and government offices with an evident absence of bylaws and regulations as well as lack of qualified staff. Additionally, there is a lack of understanding across the public sector about the role of IAs, as a relatively new profession in BiH, as well as IA's standards and practices resulting in a general reluctance to establish/support IA functions.

Given that public sector internal audit operations are in the process of development in BiH, the Partnership for Advancing reforms in the Economy (PARE) project has targeted its assistance to strengthen internal audit functions, encompassing establishment of IA units in public enterprises. In September 2010, PARE selected a public utility enterprise, "RAD", to set up a pilot IA unit to support development and strengthen its IA functions, while fostering convergence of IA policies procedures and professional standards. In that regard, PARE has worked with the selected IA unit to develop a set of legally prescribed internal audit documents such as risk assessments, audit plans, and audit reports. Also, PARE has developed the Publication on internal audit in public enterprises to serve as a practical guide on the areas applying to financial audit of public resources and implementation of internal audit operations. This IA pilot unit is meant to serve as a model unit and IA set of documents/reports included in the Publication on internal audit in public enterprises can easily be replicated in all other similar public companies in BiH.

Further, in May 2011, PARE signed a Letter of Intent with the Internal Audit Institute of BiH (IAI) that gives the basis for cooperation and ensures that technical assistance will be used to improve and strengthen the internal audit function across the public sector in BiH. Presently, PARE and the IAI are working together with the three additional public enterprises including Toplana (Banja Luka), Vodovod I kanalizacija (Zenica) and Park (Sarajevo) to strengthen their internal audit operations and functions.

ANNEX 4 – TRAINING ACTIVITY SUMMARIES

USAID Presented Certificates of Achievement to BiH Financial Regulators

**April 1, 2011
Sarajevo, BiH**

Eight members of financial regulatory agencies in BiH received Certificates of Achievement from USAID for their participation in the Strengthening Financial Regulation Study Tour to the United States. From February 5 - 16, 2011, The USAID PARE project organized a study trip to Washington, D.C. and New York for a delegation of financial regulators from BiH. This delegation included senior-level officials from banking agencies of Federation of BiH and Republika Srpska, Central Bank of BiH, Deposit Insurance Agency of BiH, and Insurance Agency of BiH.



Study Tour Returned Participants with the Mission Director, USAID Staff, and PARE CoP, April, 2011

Banking Supervision Reforms – Risk Management Decree Study Tour April 4-8, 2011 Ljubljana, Slovenia

The primary objective of this study tour was to build upon progress PARE and banking regulator working groups have made in developing a regulatory framework for managing various risk within the financial sector. Specifically, this study tour allowed participants to present and discuss a complete draft of the Risk Management Decree and outline for the ICAAP Framework as well as provide in-depth and focused hands-on training on the Basel II Pillar II functions including supervisory review and evaluation processes. Study tour participants included lead

coordinators, bank supervisors, technical specialists from the banking supervision agencies of both the Federation (FBiH) and Republika Srpska (RS) banking supervision agencies, representatives of the Central Bank of Bosnia and Herzegovina (CBBH).



Participants on Slovenia Study Tour, April, 2011

Letter of Intent on Cooperation between USAID PARE and the Internal Audit Institute of BiH May 6, 2011 Sarajevo, BiH

On May 6, 2011, USAID and the Internal Audit Institute of BiH signed a Letter of Intent on cooperation between USAID PARE and the Institute. USAID through its PARE project supports the reform with key counterparts to improve the financial administration of public resources in Bosnia and Herzegovina. The PARE project provides technical assistance in strengthening the internal audit function within public enterprises, while fostering convergence of policies, procedures and professional standards. The partnership with the Internal Audit Institute of BiH will ensure that technical assistance will be used to improve and strengthen the internal audit function. The letter of intent signed today is the first step in the process. When the PARE project ends its activity the Institute will become a legacy organization in public sector internal audit.



Director of USAID Mission/BiH Allan Reed and President of Managing Board of the Internal Audit Institute of BiH Ankica Kolobaric sign the Letter of Intent, May, 2011

Financial Econometrics
May 10-11, 2011
Sarajevo, BiH

The workshop covered important themes in financial econometrics that are relevant for market risk assessment, such as empirical characteristics of financial time series, basic estimation techniques, linear time series modeling, volatility modeling and forecasting. The participants became acquainted with econometric models useful for analyzing financial time series, as well as with modern methods of market risk measurement. The models and methods were illustrated on actual financial data, with an emphasis on calculation of Value at Risk and related regulatory and economic capital for market risk. In addition, the workshop helped the participants to understand the process of development, back-testing and regulatory approval of internal risk assessment models.



PARE organizes a workshop on financial econometrics for Market Risk Work Team, May, 2011

Provisional Administration and Insured Deposit Payout
June 11, 2011
Sarajevo, BiH

PARE organized a workshop on the Deposit Insurance Agency's financial planning model and its relevance for other agencies, such as the Central Bank of BiH, the Ministry of Finance and the Banking Supervision Agencies. The workshop also introduced topics in the financial system's functioning, architecture of financial stability, and interagency related issues



PARE organizes workshop focusing on the Deposit Insurance Agency's financial planning model and its relevance for other agencies- June, 2011

Training Sessions for Financial Coordination Unit (FCU) of the Ministry of Finance and Treasury of BiH
August 23-24, 2011
Sarajevo, BiH

In order to strengthen the role of the Financial Coordination Unit of the Ministry of Finance and Treasury of BiH, the USAID Partnership for Advancing Reforms in the Economy (PARE) project organized training sessions focusing on the structure and organizational set-up of the Unit. These training sessions build on PARE's assistance to the Ministry to increase its capacity to fully perform its regulatory and policy design role in the BiH financial sector. In addition, the goal for this program was to familiarize the Unit with the role of ministries of finance in financial development and stability as well as with design of financial policies that support growth process.

The introductory seminar covered a broad spectrum of issues involved in financial development and economic growth that will be studied in much more detail in subsequent training programs and interventions with the purpose of maintaining and enhancing financial stability through impact assessment methodologies.



FCU members at training sessions organized by PARE - August, 2011

Internal auditing across the public sector
Training of Trainers
August 22-September 2, 2011
Sarajevo, BiH

Through project Component 2, PARE aims to improve the financial administration of public resources, encompassing establishment of internal audit systems in public enterprises to add value and improve efficiency and quality of public services. To achieve this, PARE has piloted a standardized internal audit professional program in a cantonal public utility enterprise Rad from Sarajevo. Three additional public companies have now been selected - cantonal public utility company "Park d.o.o" from Sarajevo, water and sewage utility company "Vodovod i Kanalizacija-VIK d.o.o." from Zenica, and central heating system utility company "Toplane" AD from Banja Luka – for establishment of internal audit pilot units to improve and strengthen internal audit functions, while at the same time introducing best internal audit practices.

With the goal of maintaining a repository of internal audit knowledge, PARE organized a two week training-of-trainers of the Internal Audit Institute of BiH. Participants learned skills to assist selected public enterprises in strengthening internal audit capabilities. When the PARE project ends, the Institute will serve as a legacy organization in public sector internal audit, allowing the project's objectives and activities to continue and to be built upon.



PARE organizes training of trainers from the Institute for Internal Audit of BiH, PARE's legacy organization in public sector internal audit, August, 2011

BiH Banking Reforms toward EU Accession Roundtable
September 23, 2011
Sarajevo, BiH

With the goal of improving private-public dialogue and increasing the involvement of the private banking sector in advancing banking supervision through the Banking Association of BiH, PARE organized a roundtable on BiH banking reforms and EU accession issues. This roundtable built on the Letter of Intent between the Banking Association and PARE regarding participation of the Association and its members in banking supervision regulation reform and alignment with international standards, specifically with Basel II/III Core Principles required for European Union accession. The goal of this roundtable was to highlight the role of the banking sector in implementing the new risk-based regulatory framework by coordinating with banking supervision regulators.



From left to right: Peter Nicholl, PARE COP Berina Selimovic-Mehmedbasic, Acting USAID Mission Director Aler Grubbs, Secretary of the Banks Association Mijo Misic, PARE Consultants Radomir Salic, and Tomaz Rotovnik, September, 2011

Financial Leasing in BiH – Snapshot and Recommendations
October 7, 2011
Sarajevo, BiH

PARE organized the workshop on financial leasing reform that brought together representatives from financial leasing companies and banking institutions. The workshop focused on three areas in need of reform including: 1. the legal framework in the area of harmonization of leasing legislation with the overall BiH legal system, supervision and enforcement 2.capacity building in the private and public sector (primarily supervision and the judiciary) and 3.other related issues such as Value Added Tax (VAT) and financial leasing, fees for supervisions and judiciary and enforcement practices.

The workshop included an overview of recommendations to stimulate financial leasing in BiH.



Representatives from financial leasing companies and banking institutions attend a workshop on financial leasing in BiH, October, 2011

Conformity Assessment of the Deposit Insurance System in BiH

September 26-30, 2011

Banja Luka, BiH

The Deposit Insurance Agency (DIA) of Bosnia-Herzegovina has received substantial support from the PARE project in upgrading its technical capabilities for managing the deposit insurance scheme in BiH. PARE has performed an extensive review of the legal framework, organization, governance, funding and other key aspects of the scheme to assist the Deposit Insurance Agency to perform a self-assessment using international standards as benchmarks. The two standards employed were the Core Principles of Effective Deposit

Insurance Schemes, as devised by the Basel Committee on Banking Supervision and the International Association of Deposit Insurers and EU Directives. After working with the DIA, it is clear that a critical area for improvement is not the deposit insurance scheme itself, but areas where the roles of the DIA intersect with other mandates for financial stability and safety, in particular with banking supervision and resolution. These intersections make it more difficult to determine where responsibility for improvement lies, and there are several issues of inter-institutional coordination within the financial safety network that need to be improved in the near future. The PARE project has advised that the key aim for the DIA should be to speed up deposit payout, especially in the case of provisional administration, in order to maintain and improve the credibility of the scheme. To do this, a number of issues related to the DIA's mandate, including cooperation with banking supervision, cooperation with provisional administrators, and the duration of provisional administration, need to be resolved.



The DIA managing staff attend the On-the-job Training on Conformity Assessment, September, 2011

Capacity Building for the Risk-based Banking Supervision Framework

October 25-27, 2011

Konjic, BiH

PARE organized a three-day workshop focusing on market risk issues involved in banking supervision reforms. This workshop is a continuation of the technical assistance provided for the banking supervisors in BiH aimed to strengthen banking supervision in compliance with the international standards. Also, the workshop served to continue to build the market risk expertise of the PARE market risk working team (MRWT) members, focusing on Basel II internal value-at-risk models for market risk and a new role of internal audit in evaluating the risk management models.



The members of the Market Risk Working Team (MRWT) attend a workshop on capacity building for the risk-based banking supervision framework

Regulatory Framework for Banking Supervision Reform in compliance with International Standards

November 10-11, 2011

Opatija, Croatia

PARE organized a conference on the banking supervision regulatory framework in compliance with international standards in Opatija, Croatia. The Conference featured key personnel from the Banking Supervisory Agencies (BSAs) of both entities of Bosnia-Herzegovina (BiH) and their governing boards as well as reform coordinators from the Central Bank of BiH, who are, and will be involved in adoption of the regulatory framework. The conference provided comprehensive briefings on the features of the international standards and the EU directives regulatory framework, developed in partnership with the participating institutions and PARE technical assistance. PARE has invested significantly in the design and adoption of the framework since 2008, employing consultants and strengthening the capacity of key



A distinguished group of the banking supervisors attend a conference on regulatory framework for banking supervision reform in compliance with international standards, November, 2011

counterparts in banking supervision and regulation to develop the decrees needed to implement the banking supervision regulatory framework.

The conference ended on a high note with banking supervision regulators working with PARE to assist in the reform process as BiH continues on its path to EU accession.

Financial Coordination Unit (FCU) Training Session – Capital Markets Development
November 21-22, 2011
Sarajevo, BiH

In continuation of training efforts for the Financial Coordination Unit of the Ministry of Finance and Treasury of BiH, PARE organized a training session on the development of capital markets. Presentations opened with general principles, after which a basic functioning of capital markets and reasons for regulation were presented. Fundamental principles were followed by introduction of calculations of asset prices – valuations of bonds and stocks. Also included in the presentations were mutual funds and issues involved in asset valuation in illiquid markets, as well as recent problems related to shifts between different portfolios. Mortgage and housing finance were discussed, too, with detailed presentations of different models for government support to housing finance. Concluding part of the training was devoted to links between pension reforms and capital markets development. Case studies from Southeastern Europe (and Croatia in particular) have been used in order to present cases from institutionally similar environments.



Representatives of the financial coordination unit and banking agency at the capital markets development session, November, 2011

Macroeconomic Analysis and Design of Macro-financial Reports
December 19-20, 2011
Sarajevo, BiH

PARE organized training sessions on macroeconomic analysis and macro-financial reports in support to the Financial Coordination Unit (FCU) of the Ministry of Finance and Treasury of BiH to design and produce the reports for the Minister and Financial Development Council. This seminar was the part of series of seminars specifically targeted to the FCU to enhance its capacity to fully perform its regulatory and policy design role in the BiH financial sector. The real sector issues were covered in the initial part of the seminar. Particular attention was paid to real



Representatives of the financial coordination unit and banking agency at the macroeconomic analysis and design of macro-financial training sessions, December, 2011

effective exchange rate movements, unit labor costs and their impact on the balance of payments. Exchange rate determination models were reviewed briefly with an emphasis on productivity differentials and the Balassa-Samuelson effect. The second part of the seminar focused on the volatility of international capital flows and monetary policy constraints in the fixed exchange rate environment. Lastly, the issues of fiscal sustainability and optimum currency areas were covered in order to finalize an explanatory framework for understanding the current crisis in the Eurozone.

Exchange of Information and Professional Secrecy
February 1, 2012
Sarajevo, BiH

The PARE project organized for representatives from the Banking Supervisory Agencies (BSAs) of both entities of Bosnia-Herzegovina (BiH) a facilitated discussion focusing on specific legal issues involving the exchange of the information and professional secrecy subject to the EU directives requirements, while taking into account the entity laws on banking agencies. Namely, the banking agencies, as supervisory authorities of the non-EEA jurisdictions must, in order to participate in the Colleges of Supervisors and the exchange of the information with the EU Supervisory Authorities, abide by the confidentiality obligations provided by the EU financial directives and in particular Articles 44 - 52 of the Directive 2006/48/EC (CRD). In the first part of the meeting, the presentation on the CRD confidentiality requirements was provided to the participants. In the second part of the meeting, the concrete solutions in the legislative text proposal were discussed between the representatives of the banking agencies and PARE. The successful one day meeting identified outstanding issues and provided valuable solutions to be considered for the final wording of the corresponding legislation text in the entity laws on banking agencies.

Establishment of Internal Audit Function in Public-owned Enterprises
February 16, 2012
Sarajevo, BiH

PARE project hosted a workshop to review progress in the establishment of the internal audit function in three Public-Owned Enterprises (POE) utilizing methodologies that had previously been developed and issued as an Internal Audit Handbook in April of 2011. POE participants at the workshop included Toplana Banja Luka, a public utility owned by the City of Banja Luka, Vodovod i Kanalizacija (VIK) Zenica, a public utility owned by the city of Zenica, and PARK Sarajevo, a POE owned by the Canton of Sarajevo. Working in collaboration with the BiH Institute of Internal Auditors (BiH IAI), the PARE project had supported efforts to establish and develop the internal audit function in these three POEs over the last eight months. Presentations from the POEs included a review of the procedures undertaken to establish a strategic risk framework used to develop a strategic audit plan and efforts undertaken to raise awareness of the internal audit function as a tool to help achieve strategic objectives of the organization. PARK Sarajevo reviewed an assessment of compliance with international internal audit standards that had been conducted in collaboration with the BiH IAI.



Representatives of the public-owned enterprises at a training session on the internal audit function, February, 2012

Recent developments in internal audit were also covered during the workshop including proposed revisions to the Committee of Sponsoring Organizations (COSO) framework for internal control, proposed revisions to the international IIA Professional Practices Framework, and Common Body of Knowledge.

ANNEX 5 - THE BANKING SUPERVISION REGULATORY FRAMEWORK (JUNE 2008 - DECEMBER 2011)

